

The contents of this document are preliminary and subject to change.

GRAY/23/3497

January 13, 2023

**Statement by Mr. Anwar and Mr. Hendrayadi on Finland
(Preliminary)
Executive Board Meeting
January 18, 2023**

Weakening global growth and rising interest rates have further worsened the outlook for the economy. We agree with staff assessment on the importance of strengthening fiscal sustainability in the medium term. However, policy should be ready to play a countercyclical role to mitigate the impact to the economy if short-term risks materialize. It is especially important to maintain social support for vulnerable households to mitigate the impact of rising prices on cost of living against the background of falling real wages.

On the financial sector issues, we broadly support staff recommendation on the importance of assessing financial system resilience in the regional context considering high interconnectedness of Finnish banks to other Nordic countries. In this regard, while we recognize the implementation challenges, regional stress tests would be informative in assessing the risks from cross-border exposures. *Staff views on the feasibility of regional stress tests are welcome.* Regarding the recommendations for legislating Debt-to-Income (DTI) and Debt Service-to-Income (DSTI), we would like to build on the authorities' stance that this step must be considered carefully given the distributional impact. The application of DTI and DSTI, coupled with macroprudential enhancements in mid-2023 which introduces a more conservative Loan-to-Value ratio limit, could disproportionately impact vulnerable groups. *Staff comments regarding the distributional impact of tightening financial sector policies would be welcomed.*

We note positively Finland's ambitious carbon neutrality goal and the considerable progress made in shifting away from fossil fuels. Given the binding 2035 carbon neutrality goal, we welcome staff assessment on risks to the financial system from the economic transition and how they are being managed. We also note authorities' view on the need to consider carbon leakage emanating from land use sectors. *Staff elaboration on this is welcome.*